

TKJ CHARITIES, INC.

Financial Statements --- June 30, 2006

(With Independent Certified Public Accountant's Report Thereon)

Lane K Peterson
Certified Public Accountant

TKJ CHARITIES, INC.
Table of Contents

<u>Description</u>	<u>Page</u>
Independent Certified Public Accountant's Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	10
Independent Certified Public Accountant's Report on State Legal Compliance	12



Lane K Peterson

Certified Public Accountant

P.O. Box 71448
Salt Lake City, Utah 84171-0448
(801) 943-3737
Fax (801) 942-5820

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT'S REPORT


To the Board of Directors of
TKJ Charities, Inc.

I have audited the accompanying statement of financial position of TKJ Charities, Inc. as of June 30, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of TKJ Charities, Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TKJ Charities, Inc. as of June 30, 2006, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 26, 2007, on my consideration of TKJ Charities, Inc.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.


Salt Lake City, Utah
February 26, 2007

TKJ CHARITIES, INC.

Financial Position

June 30, 2006

ASSETS

Current Assets:

Cash	\$ 310,338
Contract receivables	446,841
Other receivables	1,851
Prepaid expenses	<u>27,239</u>

Total Current Assets 786,269

Contributions receivable 429,552

Property and equipment less accumulated
depreciation of \$47,785 3,357

Total Assets \$1,219,178

LIABILITIES

Current Liabilities:

Accounts payable	\$ 7,554
Accrued payroll	265,913
Other accrued accounts	49,227
Accrued compensated absences	834,450
Accrued retirement	<u>38,472</u>

Total Current Liabilities 1,195,616

Total Liabilities 1,195,616

NET ASSETS

Unrestricted 23,562

Total Net Assets 23,562

Total Liabilities and Net Assets \$1,219,178

The accompanying notes are an integral part of these financial statements.

TKJ CHARITIES, INC.

Statement of Activities

For Year Ended June 30, 2006

Unrestricted Net Assets

Support:

State Division of Handicapped Services	\$5,459,978
University of Utah IOTI	38,062
Other revenue	21,547
Donations	243,465
Interest	<u>10,497</u>

5,773,549

Expenses:

Bad Debt	-
Program Services	
Personal Outcome support services	4,905,372
Supporting Services	
General	<u>857,246</u>

5,762,618

Increase in Unrestricted Net Assets	10,931
-------------------------------------	--------

Net assets at beginning of year,	<u>12,631</u>
----------------------------------	---------------

Net assets at end of year	<u>\$ 23,562</u>
---------------------------	------------------

The accompanying notes are an integral part of these financial statements.

TKJ CHARITIES, INC.

Statement of Functional Expenses

For Year Ended June 30, 2006

	Program Services	Support Services	
	Personal Outcome Support Services	General	Total
Salaries	\$3,846,464	613,384	4,459,848
Payroll taxes	321,633	43,089	364,722
Health benefits, retirement and moral	86,529	84,680	171,209
Total salaries and related expenses	4,254,626	741,153	4,995,779
Tuition reimbursement	46,288	-	46,288
Transportation	130,498	31,307	161,805
Client damages	14,221	-	14,221
General insurance	51,292	2,440	53,732
Membership dues	2,572	9,383	11,955
Occupancy/Treatment space	222,373	19,099	241,472
Testing expense	4,264	-	4,264
Telephone	23,771	4,900	28,671
Postage	1,140	330	1,470
Printing and copy	194	-	194
Equipment under \$1,000	1,399	2,004	3,403
Equipment repairs	9,442	2,834	12,276
Office supplies	3,014	6,292	9,306
Program	112,059	-	112,059
Quality of life	5,105	-	5,105
Food	6,945	631	7,576
Maintenance	6,348	208	6,556
Books and subscriptions	50	-	50
License and permits	1,493	7	1,500
Other	6	132	138
Conferences	1,790	65	1,855
Seminars and training	2,518	590	3,108
Legal	1,396	-	1,396
Accounting and audit	-	34,482	34,482
Equipment over \$1,000	1,500	-	1,500
Depreciation	1,068	1,389	2,457
	<u>\$4,905,372</u>	<u>857,246</u>	<u>5,762,618</u>

The accompanying notes are an integral part of these financial statements.

TKJ CHARITIES, INC.

Statement of Cash Flows

For Year Ended June 30, 2006

Cash flows from operating activities:	
Increase in net assets	\$ 10,931
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	2,458
(Increase) decrease in operating assets	
Contract receivables	(47,462)
Contributions receivable	(242,905)
Other receivables	14,511
Prepaid expenses	(261)
Increase (decrease) in operating liabilities	
Accounts payable	(20,708)
Accrued payroll	71,172
Other accrued accounts	15,754
Accrued compensated absences	217,918
Accrued retirement	27,350
Net cash provided by operating activities	<u>48,758</u>
Cash flows from investing activities:	
Proceeds from sale of assets	-
Purchase of equipment	-
Net cash used by investing activities	<u>-</u>
Cash flows from financing activities:	
Payments on contracts payable	-
Net cash used by financing activities	<u>-</u>
Net increase in cash	48,758
Beginning cash	<u>261,580</u>
Ending cash	<u>\$ 310,338</u>
Interest paid	\$ -
Donated assets	\$ -

The accompanying notes are an integral part of these financial statements.

TKJ CHARITIES, INC.

Notes To Financial Statements

For Year Ended June 30, 2006

(1) Organization and Significant Accounting Policies

- a. The organization was organized as a Utah nonprofit corporation within the meaning of the Utah Nonprofit Corporation and Cooperative Association Act on May 13, 1982. On April 10, 2006 the corporation changed its name to TKJ Charities, Inc. from TKJ, Inc.

The organization is to cultivate, foster, promote and support public and charitable programs for assistance to people with disabilities and people with behavioral, psychological and other problems affecting their ability to adjust to others and to society and to provide supports for such people.

In connection with the name change TKJ Charities, Inc. has elected not to renew its contract with the State of Utah at June 30, 2006 in order to become a charity whose sole purpose is to receive qualified contributions rather than income as a service provider. Those charitable activities will continue to be centered in the population it has served in the past. A new entity has been established under the name of TKJ, LLC which will acquire certain assets and liabilities of TKJ Charities, Inc. on July 1, 2006.

- b. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- c. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.
- d. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Restricted contributions are

TKJ CHARITIES, INC.

Notes To Financial Statements - Continued

(1) Organization and Significant Accounting Policies - continued

required to be reported as temporarily or permanently restricted support and are then reclassified to unrestricted net assets upon expiration of the time restriction or appropriate use of the assets.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Donated materials and equipment are reflected as contributions at their estimated values at date of receipt. No amounts have been reflected in the statements for donated services as they did not meet the criteria for recognition.

- e. The Organization maintains all of its cash balances in one institution in one interest bearing checking account and one interest bearing money market account. Of these balances only one is insured by the Federal Deposit Insurance Corporation up to \$100,000 in the aggregate. The money market account is uninsured and has a balance of \$310,780 at June 30, 2006. It is the Organization's policy to invest cash with financial institutions judged to be highly secure. For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

- f. The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

The amounts reported as cash, receivables, other assets, trade accounts payable, accrued expenses, obligations under capital leases and notes payable are considered to be reasonable approximations of their fair values. The fair value of financial instruments is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. In the case of contract receivables, promises to give and debts, the carrying value approximates fair value. The reported fair values do not take into consideration potential expenses that would be incurred in an actual settlement.

- g. Fixed assets are recorded at cost or fair market value at time of donation. It is the policy of the Organization to capitalize fixed assets with an individual cost of \$5,000 and a useful life of more than one year. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis over various lives.
- h. TKJ Charities, Inc qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation and therefore has no provision for income taxes.

TKJ CHARITIES, INC.

Notes To Financial Statements - Continued

(2) Grants

The State grants awarded to TKJ Charities, Inc. relating to funds included in this audit report consist of the following:

- a. Utah State Department of Human Services, Division of Services for People with Disabilities contract number A00549, grant period July 1, 2005 through June 30, 2006 for \$5,459,978.

(3) Concentrations of Credit Risk

Financial instruments that subject the Organization to potential concentrations of credit risk consist of cash and receivables. The Organization maintains its cash in bank accounts, which may exceed federally insured limits. At June 30, 2006, the Organization's bank balances exceeded federally insured limits by approximately \$310,780. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances. Concentrations of credit risk with respect to receivables are limited due to the fact that they are due from governmental agencies and related parties. Related party receivables are secured by trust deeds on real estate.

(4) Economic Dependency

The Organization receives the majority of its revenues from state government contracts. These contracts provide funding for up to one year at a time. If these contracts are not renewed or replaced, the Organization would not be able to operate in the same manner as it has in the past. Management considers the likelihood of such an occurrence remote.

(5) Contributions Receivable

At June 30, 2005, Life Chances Foundation, a private nonprofit charitable organization, established to provide support either directly or indirectly for the programs and purposes of TKJ Charities, Inc. had pledged \$186,647 for TKJ Charities, Inc.'s day to day operations as TKJ Charities, Inc. determines appropriate. Funds will be transferred if a written request is received from TKJ Charities, Inc. management stating that the funds are needed. During 2006, an additional pledge of \$242,904 was made as the needs of TKJ Charities, Inc. had increased, resulting in a pledged balance of \$429,551 at June 30, 2006. Life Chances Foundation is managed by a Board of Trustees, which is comprised of three key employees of TKJ Charities, Inc. Life Chances Foundation has the ability to provide support to other authorized charitable entities, as its Board of Trustees may deem appropriate.

TKJ CHARITIES, INC.

Notes To Financial Statements - Continued

(6) Property and Equipment

A summary of the Organization's property and equipment at June 30 is as follows:

	Life in Years	Cost	Accum. Depn.	Net Asset
Vehicles	5	\$36,182	36,182	-
Equipment	5-7	<u>14,960</u>	<u>11,603</u>	<u>3,357</u>
		<u>\$51,142</u>	<u>47,785</u>	<u>3,357</u>

Depreciation charged to operations was \$2,458.

(7) Pension Plan

The company sponsors a defined contribution pension plan that covers substantially all employees. Contributions to the plan are based on a percentage of gross wages under Code Section 401(k) deferment. For June 30, 2006 the amount of pension expense was \$63,567.

(8) Commitments

The Organization leases two vehicles under operating lease agreements for periods of three years, expiring in April 2007 and June 2008. Rental expense for the year ended June 30, 2006 amounted to \$17,405. Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2006 are \$14,203 - 2007, and \$8,776 - 2008.

The Organization leases real properties from various parties under written or verbal operating lease agreements. The leases are provided by independent leasing agencies and related parties. Lease expense provided by these parties amounted to \$191,274 for J Quad L.L.C. and \$18,000 for Terry Jensen for the year. Total real property lease expense with no guaranteed minimum future payments was \$209,274 for the year ended June 30, 2006.

(9) Related Parties

TKJ Charities, Inc. has leased certain properties from J Quad L.L.C. and Terry Jensen. J Quad L.L.C. is controlled by Terry Jensen who is employed as an executive for the Company. The effects of these relations on the Company affairs are unknown.

TKJ Charities, Inc. has a pledge from Life Chances Foundation, which is managed by a Board of Trustees comprised of three key employees of TKJ Charities, Inc. The effects of these relations on the Company affairs are unknown.

TKJ CHARITIES, INC.

Notes To Financial Statements - Continued

(10) Contingencies

Grants:

Grants are subject to review and audit by State Agencies. Such audits could result in a request for reimbursement by the State for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of management, such disallowances, if any will not be significant.

Litigation:

The Company is not aware of any contingent liabilities that would materially effect the financial statement at June 30, 2006.



Lane K Peterson

Certified Public Accountant

P.O. Box 71448
Salt Lake City, Utah 84171-0448
(801) 943-3737
Fax (801) 942-5820

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
TKJ Charities, Inc.

I have audited the financial statements of TKJ Charities, Inc. (a nonprofit organization) as of and for the year ended June 30, 2006, and have issued my report thereon dated February 26, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether TKJ Charities, Inc.'s financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered TKJ Charities, Inc.'s internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to material weaknesses.

To the Board of Directors of
TKJ Charities, Inc.
Report on Compliance and Internal Control GAS
Page 2

This report is intended solely for the information and use of management, Board of Trustees, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, appearing to read "Lane K Peterson" followed by a stylized "CPA" or similar initials.

Salt Lake City, Utah
February 26, 2007



Lane K Peterson

Certified Public Accountant

P.O. Box 71448
Salt Lake City, Utah 84171-0448
(801) 943-3737
Fax (801) 942-5820

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT'S REPORT ON STATE LEGAL COMPLIANCE

To the Board of Directors of
TKJ Charities, Inc.

I have audited the financial statements of TKJ Charities, Inc., a nonprofit corporation, for the year ended June 30, 2006 and have issued my report thereon date February 26, 2007. As part of my audit, I have audited TKJ Charities, Inc.'s compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to its major State assistance program as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. TKJ Charities, Inc. received the following major State assistance program from the State of Utah:


Division of Services for People with Disabilities (State Department of Human Services)

The management of TKJ Charities, Inc is responsible for its compliance with the compliance requirements identified above. My responsibility is to express an opinion on compliance with those requirements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about TKJ Charities, Inc.'s compliance with those requirements. I believe that our audit provides a reasonable basis for my opinion.

The results of my audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In my opinion, TKJ Charities, Inc. complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance program for the year ended June 30, 2006.


Salt Lake City, UT 84121
February 26, 2007